

15 SEP 1949

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GENERAL

1. McCloy favors cessation of German dismantling--US
High Commissioner McCloy in Frankfurt believes that the western powers should immediately announce the cessation of all dismantling except war plants, possibly making such cessation conditional on speedy German acceptance of the Ruhr agreement. McCloy expresses his opinion that dismantling has little value to the US and has a "great abrasive effect" on the Germans, whereas abandonment of the process might give solid support to the new German Republic and provide a "breathing spell of cooperation." McCloy points out that many aspects of dismantling are economically incongruous; he also expresses the conviction that present agitation against dismantling is not inspired by former Nazi elements.

(CIA Comment: CIA considers that although a cessation of the present dismantling program would somewhat improve the prestige of the Bonn Government, such action would probably not increase German cooperation with the western powers.)

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FAR EAST

2. CHINA: Chiang to suspend support of Canton Government--
According to the Assistant US Naval Attache in Canton, Acting President Li Tsung-jen has received notification from Chiang Kai-shek that all funds coming from Taiwan for support of the Canton Government would cease on 1 October. Li indicated that the cutting off of funds from Taiwan would cause the collapse of the mainland Government. Li told the Assistant NA that Chiang has again been intervening in direct military command recently and cites

DIA and DOS review(s) completed.

- 1 -

Document No. 063
NO CHANGE in Class. ☐
☐ DECLASSIFIED
Class. CHANGED TO: TS
BDA Memo, 4 Apr 77
Auth: BDA REG. 77/1763
Date: 13/3/78 By: ☐

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Chiang's withdrawal of air support from Pai Chung-hsi and the removal to Taiwan of vitally-needed ammunition and bomb reserves in the Canton area. The Assistant NA comments that although Li did not make threats or demand US aid, he obviously considers immediate financial or military aid "in whatever amount" the only hope for saving the present Government from the Chinese Communists and freeing it of Chiang.

(CIA Comment: Although Li may have over-emphasized his own predicament in an effort to obtain direct US aid, Chiang's continued refusal to relinquish funds or stockpiled materiel on Taiwan indicates that Chiang is leaving the Canton Government and the anti-Communist mainland forces to their own resources.)

- 2 -

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